3.2.8.2 Farm & Self-Employment Income

Self-employment income is earned directly from one's own business rather than as an employee with a specified salary from an employer. Self-employment income is reported to the IRS as farm, self-employment, rental, or royalty income. All self-employment income is earned income, except royalty income and rental income where the individual does not actively manage the property 20 or more hours a week.

The FEP must identify a self-employment business using the following criteria:

1) **By IRS Tax Forms**

2) **By Organization**

   Self-employment income can come from a business organized in one of three ways:

   a. A sole proprietorship is an unincorporated business owned by one person.
   b. A partnership exists when two or more persons conduct business. Each contributes money, property, labor, or skills, and expects to share in the profits and losses. Partnerships are unincorporated.
   c. An S corporation is a business that elects to pass corporate income, losses, and deductions through its shareholders. Shareholders report income and losses on their personal tax returns and are taxed at individual income tax rates.

3. **By Employee Status**

   A self-employed person earns income directly from his or her own business, and:

   a. Does not have federal income tax and FICA payments withheld from a paycheck.
   b. Does not complete a W-4 for an employer.
   c. Is not covered by employer liability insurance or worker's compensation.
   d. Is responsible for his or her own work schedule.

Any wages or salary that an individual receives from a corporation owned by a W-2 group member shall be considered wages from employment and not self-employment income.

The W-2 agency must count the gross receipts from farm and self-employment businesses. Gross receipts must not be adjusted based on expenses. Monthly farm and self-employment income must be calculated using IRS tax forms completed for the previous year or ~~if tax forms were not completed for the previous year by~~ average monthly anticipated earnings using the *Self-Employment Income Report (DHS 00107)*. ~~The number of self-employment hours reported as worked per month is limited to the net business income divided by federal minimum wage.~~

~~Income from a corporation owned by the participant shall be considered earned income and not self-employment income.~~

Calculate self-employment income based on anticipated gross earnings using the Self-Employment Income Report Form (SEIRF) when:

1. The business was not in operation for at least one full month in the prior tax year;
2. The business has not been in operation for six or more months at the time of the application; or
3. There was a significant change in circumstances and the taxes no longer represent the current earnings.

FEPs must ensure the change is actually a significant change, and not just a normal fluctuation in the business, seasonal employment, or a circumstance that does not affect income over time. Examples of a significant change in circumstances include, but are not limited to:

1. The start of a business.
2. The owner sold a part or all of his or her business.
3. The owner is ill or injured and will be unable to operate the business.
4. There's a substantial cost increase causing less profit for each unit sold.
5. Sales are consistently below previous levels beyond normal sales fluctuations.
6. The business is consistently earning above previous levels beyond normal fluctuations.